



# CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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May 30, 2012

Dear City of Stockton Employee,

As you know, three months ago the City Council directed staff to enter the confidential AB 506 mediation process in order to avoid insolvency and get us back on track to be financially healthy again. The City and its creditors, (employee organizations, retirees, bond insurers, etc.) have held several meetings and continue to meet. The majority of creditors and the City have agreed to an extension of the mediation period to June 25th, as allowed under AB 506. City staff and our advisors are continuing to meet with various members of the creditors groups in order to see if an agreement can be reached.

However, the City must by law adopt a balance budget before July 1. If agreement to resolve the City's \$26 million dollar deficit for fiscal year 2012/13 is not reached, the City would need to: 1) make massive staffing reductions that would jeopardize public health and safety; 2) ask for massive and we think unfair compensation reductions; or, 3) reluctantly, file for bankruptcy protection. The City Council has already indicated its reluctance to make any more staffing reductions in a City that has already seen major reductions in services to its community and where its crime rate already is too high. The Council also believes Stockton needs to maintain a competitive compensation plan. We think additional city-wide compensation reductions of the magnitude we all experienced this past year would make us uncompetitive in the labor market.

In order to preserve the City's options if agreement is not reached to avert bankruptcy, I, as City Manager, along with the City Attorney will be asking the City Council for authorization to have the City's attorneys start the preparation work necessary to file for bankruptcy protection before July 1, 2012. If the mediation process ends up producing a result that makes bankruptcy unnecessary, no filing would be needed. Specifically on June 5<sup>th</sup>, the City Council will be requested to authorize preparations for bankruptcy and the actual filing for Chapter 9 protection, in the event it becomes necessary before July 1. The June 5<sup>th</sup> Council agenda item is not a bankruptcy filing per se, it is a contingency plan that may result in a Chapter 9 filing if we find ourselves at the end of this fiscal year with no viable means to balance the FY12-13 budget.

As a City employee you are sure to be interested in how a bankruptcy filing might impact you. We will provide additional information for you if that appears likely. In a municipal bankruptcy, Stockton would continue to operate and provide services to the Stockton residents as we have before. Municipal bankruptcies can take many years to resolve, and while that occurs, the City operates under the "Pendency Plan". That Plan makes expenditure adjustments in the City's obligations to allow it to function within its available revenue. Within those reduced expenditures the City continues to operate and employees would continue to provide services to the public.



As an employee you may or may not be impacted by proposed changes in compensation or terms and conditions of employment that might be part of a "Pendency Plan". If the City does need to file for bankruptcy protection at the end of June there would be a public hearing and a copy of the Pendency Plan would be part of the public record approved by the City Council. If this becomes necessary, it will likely occur on June 26<sup>th</sup>. The City would provide you with information on how you might be impacted and other information about municipal bankruptcies by utilizing the City intranet site. I think it is important for you to know, the Council has provided me no direction to impair or otherwise impact PERS retirement benefits. They have given me no direction to reduce medical benefits for current employees, but health benefits for retirees will likely be impacted given its enormous costs (\$9 million) to the General Fund. The Council recently heard a report that, in order to properly fund and make it available for everyone when you retire, the City would immediately have to double its contribution, now. This is highly unrealistic. I encourage you to read a comprehensive review of the retiree health program found on the City Council Agenda for May 22<sup>nd</sup>.

The City is undergoing a very stressful time and we ask that our employees continue to make a commitment to Stockton by continuing their Stockton employment. If you are considering other employment or retirement, please wait until you see how events play out. If the "Pendency Plan" becomes a reality, see if it actually impacts you personally or might impact you as a retiree before you make any major decisions. Please do not make any major changes based on rumors of how you may or may not be personally affected. I am confident that if you stick with us, our financial future will eventually become more reliable and predictable. It is the transition to this new place that continues to be difficult.

Thank you for your patience and cooperation in this very difficult time.

Sincerely,



BOB DEIS  
CITY MANAGER

cc: City Council